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# AUDIT STAFF REPORT OF AUDIT

This report presents the findings developed from an audit undertaken pursuant to Audit Staff responsibilities and authorities set forth in organization regulations. Unless otherwise indicated in the report, the audit included review and appraisal of internal controls and procedures and such other audit processes, test checks and verification of accounts, assets and transactions as were considered appropriate and consistent with generally accepted audit standards in the circumstances.

The objectives of the audit were to determine for management whether

- (1) Adequate controls and procedures have been established and are being applied effectively to safeguard organization resources and assure that resources are used only for approved and legal purposes, and
- (2) Activities are being conducted economically, efficiently and in conformance with policy determinations and directives.

Accounts Branch

Finance Division

Office of Comptroller

For the period:

From

Through 30 November 1962

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Acting Chief, WH-FE Division

Date 5 March 1963

This report consists of 8 pages.

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REPORT OF AUDIT  
Accounts Branch, Finance Division  
Office of the Comptroller

As of 30 November 1962

SCOPE OF AUDIT

1. Our review included all activities and accounts for which the Accounts Branch has primary responsibility except activities of the Proprietary Accounts Section which are covered in connection with audits of proprietary projects. Generally, comments relating to the status of accounts pertain to conditions reflected in the machine runs at 31 October since runs of that date were the most recent available to us during the early phases of our audit.

SUMMARY OF FINDINGS

2. Our audit disclosed that the status of accounts for which Accounts Branch has primary responsibility was much improved over conditions found at our last audit. The accounts continue to reflect, however, numerous incorrect and stale items, the elimination of which would greatly improve the accuracy of financial data reflected in the accounts as well as strengthen the control function which should be accomplished through the accounts. These deficiencies, while found in some degree in many of the accounts, are most prevalent in those accounts related to property where responsibility for processing transactions is divided between Finance Division and the Office of Logistics. This appears to be due primarily to errors in coding and noncurrent recording of transactions and to lack of a clear and systematic control over documents affecting financial accounts. There is a definite need for both offices to place greater emphasis on correct coding and current recording of transactions, and on timely, vigorous, and continuous analysis and follow-up on uncleared items to assure that improper and erroneous entries are identified and corrected currently. Also, control over the recording of property transactions should be strengthened.

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SUMMARY OF RECOMMENDATIONS

3. Recommendations arising from our audit are summarized below and discussed in detail in the following paragraphs:

a. For the Comptroller:

- (1) Expedite preparation of procedure assigning maintenance responsibilities for general ledger accounts. (Paragraph 4)
- (2) Strengthen preparation and review of transaction and posting documents to assure greater accuracy. (Paragraph 8)
- (3) Expedite clearance of old and improper items in Accounts 195.9, 175.0, 175.8, and 175.9. (Paragraphs 9, 12 through 14)
- (4) Expedite review and determination of action to be taken to identify reasons for major differences written off in reconciliation of Type II FPA reports. (Paragraphs 15 and 16)
- (5) Resolve procedures to be applied in controlling accounts payable and clear old and improper balances in Accounts 303.2 and 303.3. (Paragraphs 17 and 18)
- (6) Review procedures for recording and controlling Accounts Receivable - Property Sales and adjust old and improper balances. (Paragraph 19)

b. For Office of Logistics

- (1) In conjunction with Office of Comptroller revise procedures to strengthen document control. (Paragraphs 5, 6, and 7)
- (2) Strengthen procedure for the preparation and review of financial transaction and posting documents to assure greater accuracy. (Paragraph 11)

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- (3) Expedite action to clear old and improper items for which Office of Logistics is responsible in Accounts 175.0 and 175.9. (Paragraphs 10, 11, 13, and 14)

DETAIL COMMENTS

Need to Complete Procedures for General Ledger Accounts

4. Our audit report of 31 December 1961 recommended issuance of a Finance Division Operating Procedure assigning maintenance responsibilities for all general ledger accounts and written instructions and procedures for fulfilling these responsibilities. The current audit disclosed that, although considerable work has been done on this, it has not yet been completed. We recommend that it be expedited.

Control Over Documents Affecting FPA Accounts  
Believed Inadequate

5. Generally the Office of Logistics assigns receiving report numbers in sequence as individual shipments are received. This system generally provides an adequate basis for controlling documentation reflecting the receipt of material to assure that the receipt of property is recorded in the financial accounts.

6. In the case of shipments or other transactions reducing inventories, however, no single sequential control is established which may be relied upon to assure that all transactions have been or are processed to the financial accounts. The Office of Logistics assigns a Logistics voucher number to each requisition received, which subsequently may also be used as the Purchase Order and Shipping Document number. If partial shipments are made the partial is indicated by affixing an appropriate suffix number. Although the use of the Logistics Voucher number system appears to provide a desirable and convenient method of internal control within the Office of Logistics, it does not afford the document control which is necessary to assure that all transactions have been received and processed by the Office of Comptroller.


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7. We recommend that the Office of Logistics in conjunction with the Office of Comptroller develop a system whereby all transactions affecting reductions in inventory will be assigned credit voucher numbers in sequence as shipments are made or stock or accountability is reduced or transferred, in order to provide a basis for more readily determining that all transactions have been processed. Although the present receiving report procedures appear to afford an adequate degree of control, we suggest that procedural reviews also include determination whether the advantages to be gained from a separate control over all stock increments through assignment of debit voucher numbers might also indicate such a system should be installed.

#### Type I FPA Accounts

8. Our review indicated that procedures relating to the FPA accounting had been strengthened and the administration of these accounts was much improved. As indicated in the following paragraphs, analysis and follow-up procedures necessary to clear accounts of old and erroneous amounts were not consistently and effectively carried out in all cases. Also, more care is needed in the preparation and review of transaction and posting documents to assure completeness and accuracy in coding.

9. Account 195.9 - "Accountability to Headquarters - Property Purchased for Cash by Type I Installations" was in current status except for items over twelve months as follows:

<u>Station</u>	<u>Debits</u>		<u>Credits</u>	
	<u>No.</u> <u>Items</u>	<u>Amount</u>	<u>No.</u> <u>Items</u>	<u>Amount</u>
	11	\$18,192	21	\$13,799
	1	210	-	-
	2	695	2	1,227
	15	34,039	17	175,771
	2	562	-	-
Total, 30 November 1962	31	\$53,698	40	\$190,797
Total, 31 August 1961	42	\$53,710	48	\$173,206

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Action is currently in process to clear all old items.

10. Effective in January 1962, transfers from Type I installations to Headquarters were recorded in new Account 175.0 - "Materiel In Transit From Type I Installations to Headquarters." Credits to Account 175.0 are made by Supply Division on the basis of receiving reports; debits are made by Finance Division from monthly FPA reports submitted by Type I installations. At 31 October 1962, the account reflected 268 items totaling \$344,418. The age of the items is indicated by the following tabulation which reflects an aging of items in the accounts of 9 stations (of 18 total) having net debit balances in excess of \$35,000 or net credit balances in excess of \$5,000.

<u>Period Outstanding</u>	<u>Debits</u>		<u>Credits</u>	
	<u>No.</u> <u>Items</u>	<u>Amount</u>	<u>No.</u> <u>Items</u>	<u>Amount</u>
Under 3 months	84	\$303,949	30	\$180,095
4-6 months	36	249,225	2	8,010
7-10 months	16	126,610	15	227,503

11. Although effort is being made to clear unmatched items, the number of balances over six months old have increased. Since Supply Division is responsible for the credit entries in this account, Finance Division requests that Division to take corrective action on specific credit items, and also sends the Division periodic listings of open balances. Memorandums dated in August, October, and December 1962 from Finance Division to Supply Division indicate that the failure of credit entries to clear corresponding debits is due, at least in part, to omission of required document numbers and wrong code numbers. We recommend that clearance of old items be expedited, and that Supply Division procedures for recording credit entries be reviewed and revised as considered necessary to assure more accuracy in document preparation.

12. Our review of the status and administration of Account 175.8 - "Materiel In Transit Between Type I Installations" disclosed improvement in the account since our last audit. However, at 31 October 1962, the account had 280 balances with a net debit value of \$249,258. We could not readily age these balances because the original recording dates were all dropped in March 1962 when balances in the account were recoded to

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appear under the receiving rather than the shipping stations. However, a test examination of balances for two stations disclosed that 21 of a total of 41 balances were more than six months old. We recommend that action to clear old balances be expedited.

13. Effective 1 January 1962, Account 175.9, formerly used to record transfers between Headquarters and Type I Installations was converted to an account entitled "Material Earmarked for Shipment." The revised account is used by Supply Division to record material in the warehouse that has been earmarked for shipment to Type I and II installations. No provision was made, however, to maintain separate records of the transactions recorded in Account 175.9 under the old and new concepts. Therefore, the present balance in the account consists of a combination of both types of transactions. The primary responsibility for clearing unmatched debit balances recorded in this account after the new procedure rests with Supply Division. Responsibility for items recorded under the old procedure rests jointly with Finance and Supply Divisions.

14. At the date of our last audit, 29 September 1961, the account had [redacted] balances with a net debit balance of [redacted]. Although 900 of the older balances with a net credit value of [redacted] were written off to Account 450 in October 1962, the account at 31 October 1962 contained [redacted] balances with a net debit value of [redacted]. A limited test of these balances disclosed that they include 825 credit balances totaling [redacted] over 3 months old, and 1,044 debit balances totaling [redacted] over 6 months old. Analysis and other action necessary to clear these old balances is currently underway in Finance Division and the Office of Logistics. We recommend that the actions necessary to clear the old and improper balances be expedited and the account be maintained in a current condition in the future.

#### Type II FPA Accounts

15. Procedures for reconciling balances in general ledger Account 176 - Property in Use - Type II Installations with the Annual Dollar Value Reports were revised effective 1 March 1962. Annual Dollar Value Reports as of 28 February 1962 have been reconciled and recorded under the revised

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25X9A2 procedures for [redacted] Type II installations. FPA reports for 2 installations were in process, 4 had not been received, and 3 had been returned for correction.

25X1A 16. As authorized in the revised procedures, except for differences due to shipments in transit, differences not readily identifiable were adjusted to make the balances in Account 176 agree with the balances reported by the Type II installations. As a result of the adjustment of Headquarters records for unidentified differences between accountability reflected on Headquarters records and that shown on [redacted] station reports, accountability reflected by Headquarters was increased by [redacted]. Differences adjusted without investigation ranged from a few dollars to over [redacted]. Of the [redacted] differences written off 43 exceeded \$5,000. By memorandum dated 20 August 1962, Chief, Accounts Branch, in setting forth the procedure for adjusting differences indicated that schedules of differences would be prepared and reviewed to determine the review and analysis required concerning the unidentified differences included in the adjustment. We recommend that this review and determination be completed at an early date in order that any investigation determined necessary may proceed before data necessary to resolve major differences is lost through the passage of time.

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Condition of Accounts Payable - Property Procurement -  
Continues Unsatisfactory

25X1A1A 17. The current audit disclosed that the generally unsatisfactory condition of Accounts Payable for property procurement discussed in prior audit reports still exists. At 31 October 1962, Account 303.2 - "Accounts Payable - Property Procured at Headquarters From Other U.S. Government Agencies" contained about 660 debit balances totaling [redacted] many of which were more than two years old, and 2,652 credit balances of which 1,193 were dated prior to 1962. Account 303.3 - "Accounts Payable - Property Procured at Headquarters From Commercial Vendors," contained approximately 2,806 debit balances with a dollar value of [redacted] many of which were over two years old, and 3,265 credit balances of which 1,550 were recorded prior to 1962.

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18. We understand that representatives of the Office of Comptroller have been studying this problem and are now considering changing the entire procedure for handling accounts payable. We recommend that this action be expedited and that appropriate action be taken to clear the old and improper items from Accounts 303.2 and 303.3.

No Improvement in Accounts Receivable - Property Sales

19. In our reports issued 14 April 1961 and 24 January 1962, we called attention to the unsatisfactory condition of Account 152.5 - "Accounts Receivable - Property Sales" and recommended action to analyze the account and clear old and improper balances. Although considerable actions to clear old balances were performed during the audit period, at 31 October 1962 we found that debit balances in the Account totaled \$1,043,650 of which \$390,000 or about 37% were over 6 months old. Also the account contained credit balances totaling \$306,000. Changes in the old debit and credit items during the past year are summarized as follows:

Age of Items	31 October 1961		31 October 1962	
	No. Items	Amount	No. Items	Amount
7-12 months	51	\$132,590	73	\$217,556
Over 12 months	42	159,762	1/ 35	171,641
Not aged (Credits)	30	56,284	2/ 18	132,967

1/ Includes 12 items totaling \$86,285 included in prior year figures.

2/ Does not include 10 items totaling \$173,355 received in barter transactions.

We understand that procedures for recording barter transactions are currently under review. We recommend that the review be broadened to cover all transactions in the account and that action to analyze and adjust old and improper balances as determined necessary be expedited.

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